ANNUAL REPORT

FISCAL YEAR 1997-98

Public Utilities Commission
State of Hawaii

January 1999

PUBLIC UTILITIES COMMISSION

The Hawaii Public Utilities Commission is responsible for regulating all chartered, franchised and certificated public service companies that provide electricity, gas, telephone, telecommunication, private water and sewage, and motor and water carrier transportation services in the State. The Commission has quasi-judicial authority to establish and enforce administrative rules and regulations, and set policies and standards.

History The Commission was established by Act 89, Session Laws of Hawaii (SLH) 1913, as a part-time, three-member body with broad regulatory oversight and investigative authority over all public utility companies doing business in the Territory of Hawaii. This act, amended over the years and codified in chapter 269 of the Hawaii Revised Statutes (HRS), is the basis for utility regulation in Hawaii. The Commission's authority to regulate various classes of motor carriers of passengers and property is derived from the Hawaii Motor Carrier Law (HRS c. 271) enacted in 1961. Responsibility for all commercial water transportation carriers of persons and property within the State is derived from the Hawaii Water Carrier Act of 1974 (HRS c. 271G).

Today, the Commission is a full-time body comprised of three commissioners. The commissioners are appointed by the Governor, with the consent of the State senate, to serve six year terms on a staggered basis.

Objective and Activities The primary objective which guides the Commission in carrying out its regulatory functions is to ensure that customers of the regulated companies receive adequate and efficient services at reasonable and fair rates, while providing a fair return to the regulated companies. In order to accomplish this objective, the Commission performs the following activities:

- Adopts rules and regulations governing the operations, standards of services and facilities, and fiscal management of utilities, including procedures and practices of the Commission.

- Prescribes rates, tariffs, charges and fees, and determines the allowable rate of earnings in establishing rates.

- Issues orders and guidelines concerning the general management and operations of chartered, franchised or certificated utility businesses.

- Acts on applications for certification and for the extension or abandonment of services.

- Prescribes the methods, service, and annual rates of depreciation for utility properties.

- Acts on requests for the acquisition, sale, disposition or other exchange of utility properties, including mergers and consolidations.

- Acts on requests for the issuance and disposition of securities and other evidences of long-term indebtedness.

Administration and Offices The Commission is placed, for administrative purposes, under the State Department of Budget and Finance. The Commission has a staff of 36 employees, including three commissioners, an administrative director, lawyers, engineers, accountants, researchers, investigators, a chief clerk, clerical staff and neighbor island representatives for Maui, Kauai and Hawaii.

The Commission has four offices located throughout the State:

OAHU: Public Utilities Commission
Kekuanaoa Building
465
Honolulu, HI 96813
Phone: 586-2020

KAUAI: PUC Kauai District Office
3060 Eiwa Street, #302-C
Lihue, HI 96766
Phone: 274-3232

MAUI: PUC Maui District Office
State Office Building #1
54 High Street, #218
Wailuku, HI 96793
Phone: 984-8182

HAWAII: PUC Hawaii District Office
688 Kinoole Street, #106-A
Hilo, HI 96720
Phone: 974-4533

COMMISSIONERS DURING THE FISCAL YEAR 1997-98

Yukio Naito, Chairman

Yukio Naito was appointed to the Commission in July 1988, by Governor John Waihee. He was named Chairman of the Commission in August 1988.

Prior to his appointment, Naito was a partner in the law firm of Shim, Tam, Kirimitsu and Naito. Naito also served as administrative assistant to the Speaker of the House of Representatives, administrative assistant to the President of the Senate, Deputy Legislative Auditor, and chairman of the Legislative Reapportionment Commission.

Naito holds a bachelor of arts degree in political science from the University of Michigan and a juris doctor degree from the University of Michigan Law School. Chairman Naito retired from the Commission on July 31, 1998.

Dennis Yamada, Commissioner

Dennis Yamada was appointed to the Commission by Governor Waihee in July 1994, to complete the remaining term of former Commissioner Dan Kochi.

Yamada was engaged in private law practice prior to his appointment. He is a former member of the State House of Representatives and the University of Hawaii Board of Regents. He has also served as Deputy Corporation Counsel for the City and County of Honolulu.

Yamada received a bachelor of administration degree from Drake University and a juris doctor degree from Drake University School of Law. His term expires June 2004. Commissioner Yamada succeeded Commissioner Naito as Chair, effective August 1,1998.

Rae Loui, Commissioner

Rae Loui was appointed to the Commission by Governor Benjamin Cayetano in January 1998.

Prior to her appointment, Loui served as Deputy to the Chairperson of the Commission on Water Resource Management. Loui has worked in various positions at Pacific Gas and Electric Company and Hawaiian Electric Industries, Inc. Loui also has served as Director of Maui County's Department of Water Supply.

Loui received a bachelor of science degree and a masters degree in civil engineering from Stanford University. She also holds a masters degree in business administration from the University of California at Berkeley. Her term expires June 2002.

ANNUAL REPORT FOR THE FISCAL YEAR

1997-98

This report presents an overview of the activities of the Public Utilities Commission during the period of July 1, 1997 through June 30, 1998. The report is organized in five parts:

Part I summarizes the significant regulatory proceedings of the Commission.

Part II describes enforcement activities and includes statistics on consumer complaints.

Part III contains new rules adopted by the Commission.

Part IV includes Commission-related legislation enacted by the 1998 Hawaii State Legislature.

Part V presents statistics on the number of dockets opened and completed during the fiscal year.

I.

SUMMARY OF REGULATORY PROCEEDINGS

The Commission is responsible for regulating 197 utility companies, 2 water carriers, and 1,001 passenger and property carriers in the State of Hawaii. This fiscal year, the Commission opened 403 dockets, and issued 720 decisions and orders related to the regulated utilities and transportation carriers. The Commission also approved over $20 million in utility capital improvements.

Key proceedings in the regulation of rates resulted in the approval of final rate increases. Young Brothers, Limited (Young Brothers) was granted a final rate increase of $1.7 million. Two water and sewer companies were authorized rate increases totaling $0.9 million.

Commission activities in the area of telecommunications focused on expediting competition in the local industry marketplace. This fiscal year, the Commission certificated 65 new telecommunications companies, including 17 new providers and 48 resellers of various intrastate telecommunications services. The Commission held evidentiary hearings in October 1997 on the communications infrastructure docket. The Commission opened a generic docket to address issues relating to the establishment of the demarcation point at the minimum point of entry.

The Commission approved the demand-side management (DSM) programs of Kauai Electric Division of Citizens Utilities Company (KE). The Commission approved the acquisition of Gasco Inc. (Gasco) by Citizens Utilities Company (Citizens).

Policy-making activities included the adoption of new rules for shared tenant, aggregator and operator, and pay telephone services.

The following sections highlight the significant proceedings of the Commission.

ELECTRICITY

The Commission regulates four electric utility companies engaged in the production, purchase, transmission, distribution, and sale of electric energy in the State: Hawaiian Electric Company, Inc. (HECO) on the island of Oahu; Maui Electric Company, Ltd. (MECO) serving the islands of Maui, Lanai, and Molokai; Hawaii Electric Light Company, Inc. (HELCO) on the island of Hawaii; and KE, a subsidiary of Connecticut-based Citizens, serving the island of Kauai. MECO and HELCO are wholly owned subsidiaries of HECO, which is in turn a wholly owned subsidiary of Hawaiian Electric Industries, Inc. (HEI).

HECO, MECO, HELCO, and KE proceedings include the following:

Rate Proceedings

MECO Rate Request Denied In May 1996, MECO applied for an $18.9 million general rate increase. In November 1996, the parties to the proceeding requested approval of a stipulated agreement which would entitle MECO to a rate increase of $1.5 million.

In December 1997, the Commission issued a decision denying MECO the stipulated rate increase. MECO was not entitled to an increase based on the Commission's calculation of a fair rate of return.

MECO Seeks Rate Increase In January 1998, MECO applied for a $22.4 million general rate increase. Evidentiary hearings are scheduled to begin next fiscal year.

HELCO Seeks Rate Increase In March 1998, HELCO applied for a $17.3 million general rate increase. The application was pending at the end of the fiscal year.

Integrated Resource Planning (IRP) Activities The Commission's IRP guidelines, adopted in May 1992, require each energy utility to develop a long-range, twenty-year IRP and a medium-range, five-year program implementation schedule (action plan). The utility must submit to the Commission a triennial review of its IRP, and an annual update of its action plan. Subject to Commission review and approval, the utility is authorized to earn DSM shareholder incentives and to recover IRP program costs and DSM net lost revenues.

Below is a summary of the status of electric utility IRPs and action plans as of June 30, 1998. The due dates cited reflect various extensions granted during the fiscal year.

> HECO's first IRP and action plan were approved in March 1995. The company's revised IRP was filed in January 1998, and its externalities study was filed in July 1997.
>
> MECO's first IRP and action plan were approved in May 1996. MECO's second annual evaluation report is due July 31, 1998, and its revised IRP is due September 1, 1999.
>
> HELCO's first IRP and action plan were approved in May 1996. HELCO filed its IRP annual evaluation report in June 1997. In September 1997, the Commission opened a docket to begin HELCO's next integrated resource planning cycle. The company's revised IRP is due September 1, 1998.

Other IRP activities include the following:

> **KE DSM Program Approved** In August 1997, the Commission approved KE's six DSM programs consisting of (1) a commercial retrofit program that offers energy audits, customer education, cash incentives, and low cost financing for energy efficiency improvements in existing commercial buildings; (2) a commercial new construction program that provides technical assistance and cash incentives for the installation of efficient equipment in new commercial buildings; (3) a commercial equipment replacement program that offers cash incentives to encourage customers to purchase energy efficient technologies when replacing existing equipment; (4) a residential retrofit program that uses trade ally support, technical assistance, and cash incentives to encourage customers to install energy efficient lighting and water heating technologies; (5) a residential direct installation program that uses incentives and direct installation of cost-effective lighting and hot water measures for low income and renter markets, focusing on Hawaii Housing Authority units; and (6) a residential new construction program that provides incentives to homeowners or builders to install energy efficient technologies in new homes. The Commission approved KE's mechanisms, as amended, for recovery of its program costs and lost margins. The Commission also ordered KE to calculate and recover its shareholder incentives as provided in its decision.

Modifications to General Order No. 6 (G.O. No. 6) Approved In October 1997, the Commission approved HECO, MECO, and HELCO's requests for temporary modifications to certain sections of G.O. No. 6, *Rules for Overhead Electric Line Construction*, subject to permanent modifications or further order of the Commission.

The temporary modifications will allow the installation of optical ground wire in the supply space and the installation of electrically nonconductive fiber optic cables above supply conductors of any classification.

Power Purchase Agreements

HELCO and Enserch Development Corporation (EDC) In April 1994, EDC filed a complaint against HELCO for the alleged failure of HELCO to finalize EDC's offer to sell energy and capacity. The Commission converted the complaint into contested proceedings.

In August 1997, the Commission approved the Settlement Agreement between HELCO and EDC, insofar as it settles the issues concerning the terms and conditions of a power purchase agreement and interconnection agreement. HELCO and EDC were ordered to submit to the Commission for approval the power purchase agreement and interconnection agreement.

KE and Kauai Power Partners, L.P. (KPP) In June 1998, the Commission approved KE's power purchase agreement, as amended, with KPP, an exempt wholesale generator. Under the terms of the agreement, KPP will design, construct, own, operate, and maintain a 26.4 megawatt advanced steam injected combustion turbine generating facility. KE is allowed to recover purchased energy costs from its ratepayers through its energy rate adjustment clause.

HECO, HELCO, and MECO Fuel Contracts Approved In December 1997, the Commission approved HECO's (1) low sulfur fuel oil supply contracts with Chevron Products Company and BHP Petroleum Americas Refining Inc. for purchase of fuel oil and (2) facilities and operating contract with Chevron for the use of Chevron's facilities.

During the same period, HECO, HELCO, and MECO received approval for their inter-island industrial fuel and diesel contracts with Chevron Products Company and BHP Petroleum Americas Refining Inc. for the purchase of industrial and diesel fuel and the use of Chevron's Kahului and Hilo facilities.

The term of these contracts commenced on January 1, 1998 and terminates on December 31, 2004. The costs and related taxes may be, on an interim basis, recovered through the energy cost adjustment clauses to the extent that the costs are not included in the utilities' base rates.

HECO, MECO, and HELCO Authorized to Participate in New Refunding Bond Sale In January 1998, HECO, MECO, and HELCO received approval to participate in a sale by the State Department of Budget and Finance (B&F) of new refunding special purpose revenue bonds. HECO, MECO, and HELCO were authorized to borrow from B&F or its trustee $42,580,000, $7,720,000, and $7,200,000, respectively. The proceeds of the new refunding bonds will be used to repay the notes issued for the 1987 refunding bonds.

Capital Expenditures Approved In fiscal year 1997-98, the Commission approved expenditures totaling over $13 million for electric utility capital improvements.

> MECO was authorized to expend $8.6 million for its capital improvements. Expenditures include $6.2 million for the central Maui 23 kilovolt (KV) line replacement project, $1.2 million for the Honoapiilani Highway widening project in Kaanapali, and $1.2 million for the relocation of the Kanaha sub 2B transformer to a 69 KV system.
>
> HECO was authorized to expend $3.0 million. Expenditures include $1.2 million for the Archer 44A 46 KV circuit upgrade project, $1.1 million for the Kunia interchange improvements project, and $0.7 million for the Halawa-Makalapa fiber cable project.
>
> HELCO was authorized to expend $2.0 million for the Puueo and Waiau penstock rehabilitations.

GAS

Gasco is a duly franchised public utility providing gas service throughout the State of Hawaii. Gasco's operations consist of the purchase, production, transmission, and distribution through gas pipelines, and sale for residential, commercial, and industrial uses of synthetic natural gas and liquid propane gas. Synthetic natural gas is manufactured by Enerco, a division of Gasco. Gasco is a wholly owned subsidiary of BHP Hawaii Inc. (BHP Hawaii), a division of Broken Hill Proprietary Company Ltd. of Australia.

Proceedings involving Gasco include the following:

Acquisition of Gasco by Citizens In February 1997, BHP Hawaii and Citizens filed an application seeking the Commission's approval to: (1) sell all of the outstanding stock of Gasco to Citizens; and (2) merge Gasco with Citizens, with Citizens emerging as the surviving regulated entity. The Commission approved the transaction in September 1997.

Status of Gasco's Integrated Resource Planning (IRP) In August 1996, Gasco was ordered to commence its next IRP cycle. Gasco received the Commission's approval to extend the filing date of its revised IRP from March 1, 1998 until March 2, 1999.

TELECOMMUNICATIONS

The Commission oversees the cellular, paging, mobile telephone, and interisland data transmission services of telecommunications providers in addition to the services of GTE Hawaiian Telephone Company Incorporated (GTE Hawaiian Tel), the State's largest provider of intrastate services.

Key activities in telecommunications are highlighted below:

Development of the State's Communications Infrastructure Activities in the Commission's ongoing communications infrastructure docket, Docket No. 7702, opened in May 1993, have focused on the development of the infrastructure necessary to support the introduction, deployment, and use of advanced communications technologies and services in the State of Hawaii.

Additional hearings in Docket No. 7702 were held during this fiscal year. The parties to the docket filed their direct testimonies and opening statements in July 1997, and rebuttal testimonies in August 1997. The Commission heard witnesses from GTE Hawaiian Tel, the Consumer Advocate, the Department of Defense, AT&T Communications of Hawaii, Inc. (AT&T), Sprint Communications Co., L.P. (Sprint), Time Warner Communications, dba Oceanic Communications (Oceanic Communications), Western Wireless, GST Telecom Hawaii, Inc. (GST) and TelHawaii, Inc. (THI). The parties submitted briefs and posthearing statements in December 1997.

The Commission also issued two orders regarding universal service in conjunction with Docket No. 7702. In July 1997, the Commission established discount rates for intrastate services (included in the definition of universal service) for schools and libraries equal to the discounts on interstate service adopted by the FCC. Establishment of the discounts enables Hawaii schools and libraries to avail themselves of federal universal service support. In April 1998, the Commission adopted the Hatfield Model 3.1, with modifications, as the State's cost study for calculating federal universal service high cost support for non-rural carriers.

Carrier Certification and Merger Applications The Commission certificated 65 new telecommunications companies this fiscal year, including providers of local exchange, wireless, mobile radio, and pay telephone services; and resellers of various intrastate cellular, calling card, and interexchange (long-distance) telecommunications services.

During the fiscal year, the Commission experienced an increase in the number of applications for approval of acquisitions and mergers involving certificated telecommunications companies. Eleven applications were approved, including the application for the acquisition of MCI Communications Corporation by Worldcom, Inc. and transfer of control of LCI International Telecom Corp. to Quest Communications Corporation.

Interconnection Agreements Approved The Federal Telecommunications Act of 1996 and Hawaii Administrative Rules (HAR) Section 6-80-53 authorize parties to petition the Commission to arbitrate any unresolved issues in negotiating an agreement with GTE Hawaiian Tel for access, interconnection, unbundling, or network termination.

During the fiscal year, the Commission approved the following interconnection agreements between telecommunications service providers and GTE Hawaiian Tel.

> **GTE Card Services, dba GTE Long Distance (GTELD)** An interconnection agreement between GTE Hawaiian Tel and GTELD was approved by the Commission in December 1997. The agreement is identical to the interconnection agreement between AT&T and GTE Hawaiian Tel, approved by the Commission in June 1997. GTELD is a certificated reseller of intrastate telecommunications service in the State.
>
> **Sandwich Isles Communications, Inc. (SIC)** In January 1998, Commission approval was granted for a negotiated operator services agreement between SIC and GTE Hawaiian Tel. SIC is certificated by the Commission to provide telecommunications service within and between Hawaiian Home Lands.
>
> **THI** THI is a certificated provider of local dial-tone service for the rural service area of Ka’u on the island of Hawaii. In January 1998, the Commission approved the following agreements between THI and GTE Hawaiian Tel: a negotiated interconnection agreement and agreements for E911 service, telecommunications relay service, pole attachment, and conduit occupancy.

United States Cellular Operating Company of Hawaii RSA #3 (USCOC) In April 1998, the Commission approved a negotiated interconnection agreement between GTE Hawaiian Tel and USCOC, finding that the terms of the agreement did not discriminate against other telecommunications carriers and was in the public interest. USCOC is a certificated provider of commercial radio services in the State.

Rural Service In July 1997, the Commission granted GTE Hawaiian Tel's motion to revise a previously authorized rural service plan. The Commission had ordered a rural service plan intended to enable rural party line customers to convert to single line service upon request and to pay one-half of the cost of conversion, up to a maximum of $10,000. The general ratepayers assumed the remaining costs which were collected by GTE Hawaiian Tel over a three-year period through a modernization adjustment clause surcharge.

GTE Hawaiian Tel requested elimination of the customer share of the upgrade to increase the number of customers converting to single line service. The Commission granted the company's request and allowed GTE Hawaiian Tel to include in its rate base the rural area customers' portion of implementing the rural service plan. The effect of the decision shifted the responsibility for payment of the costs of the upgrade from the rural customers benefiting from the upgrade to the general ratepayers. The Commission also ordered GTE Hawaiian Tel to refund contributions from customers and to notify rural area customers of the Commission's decision. In October 1997, the Commission approved GTE Hawaiian Tel's proposal to increase its rates by 0.6 per cent to reflect the change.

Transfer of Assets to International Subsidiary In July 1997, the Commission approved GTE Hawaiian Tel's request to transfer certain property used in providing international telecommunications services to GTE Hawaiian Tel International Incorporated (GTEHI), a wholly-owned subsidiary of GTE Hawaiian Tel. The transfer of assets was necessitated by an FCC order which allowed GTEHI to be treated as a non-dominant carrier for regulatory purposes, provided that it is established as a separate entity from GTE Hawaiian Tel and GTE Hawaiian Tel divests itself of ownership of transmission and switching facilities used to provide international message telephone service.

Minimum Point of Entry Docket Opened In August 1997, the Commission granted the petition of GST to open a generic docket to address issues relating to the establishment of the demarcation point (point dividing GTE Hawaiian Tel's public switched network and private inside wiring) at the minimum point of entry, or the closest practicable point where wiring crosses a property line or enters a multiunit building. The docket will also investigate the regulation of the installation and maintenance of inside wiring.

The parties, which include the Consumer Advocate, GST, GTE Hawaiian Tel, AT&T, Sprint, Oceanic Communications, the Building Owners and Managers Association of Hawaii, the Department of Defense, the Hawaii Council of Association of Apartment Owners, and the Hawaii Hotel Association, held collaborative meetings in December 1997 to address the issues. The parties will continue to meet in collaborative workshops in the next fiscal year.

Capital Expenditures Approved During the fiscal year, GTE Hawaiian Tel received approval to commit approximately $7 million for capital improvements. Major expenditures include $0.6 million for facility relief projects on the islands of Maui and Hawaii, $4 million for improvements at the Punahou and Waipahu Central Offices, and $1.5 million for the Kapolei State Office Building project.

PRIVATE WATER AND SEWAGE UTILITIES

The Commission regulates 28 privately owned water and sewage treatment utilities that serve suburban, rural, and resort areas throughout the State. The majority of these utilities are located on the neighbor islands.

Proceedings involving water and sewage utilities are as follows:

New Certificates of Public Convenience and Necessity (CPCN)

South Kohala Wastewater Corp. (SKWC) In November 1997, the Commission granted a CPCN to SKWC for wastewater service in the district of South Kohala on the island of Hawaii.

Kiahuna Investors, Ltd. (KIL) In November 1997, the Commission granted a CPCN to KIL for wastewater service in the Poipu area on the island of Kauai.

Waimea Wastewater Co., Inc. (WWCI) In January 1998, the Commission granted a CPCN to WWCI to provide wastewater treatment services in the South Kohala district on the island of Hawaii.

Rate Increases

Waikoloa Resort Utilities, Inc., dba West Hawaii Utility Company (WHUC) Final Increase Approved In September 1997, the Commission approved a final rate increase of $383,052 in WHUC's application for $504,486 in additional revenues.

Princeville Utilities Company, Inc. (PUCI) Final Increase Approved In December 1997, the Commission approved a final rate increase of $93,989 in PUCI's water rates and a final increase of $474,303 in PUCI's sewer rates. PUCI's application sought rate increases of $369,169 in water rates and $763,500 in sewer rates.

Puhi Sewer & Water Co., Inc. (PSWCI) Final Increase Approved In September 1997, the Commission approved the following rates: (1) $34.00 per month for residential customers; (2) $105.00 per month and $1.95 per 1,000 gallons for commercial customer; (3) $77.00 per month and $3.25 per 1,000 gallons for industrial customers; and (4) $.50 per 1,000 for the golf course.

Financing

Princeville Utilities Company, Inc. (PUCI) Financing Approved In November 1997, the Commission approved a loan agreement whereby PUCI will execute a 15-year, $3.9 million unsecured promissory note with Princeville Corporation.

East Honolulu Community Services, (EHCS) Sale of Stock Approved In January 1998, the Commission approved the stock sale agreement whereby Maunalua Associates, Inc. agreed to sell, and American Water Works Company, Inc. agreed to purchase, all 3,000 issued and outstanding shares of EHCS owned by Maunalua Associates, Inc. The purchase price was $18,400,000.

TRANSPORTATION CARRIERS

Motor Carriers

The Commission regulates 616 passenger carriers and 385 property carriers in the State. This fiscal year, new certificates or permits were issued to 59 passenger carriers and 6 property carriers.

Passenger carriers are classified by authorized vehicle seating capacity. They include tour companies, limousine services, and other transportation providers.

Property carriers are classified by the types of commodities transported and the nature of services performed, namely: general commodities, household goods, commodities in dump trucks, and specific commodities.

By law, taxis, school and city buses, ambulance services, refuse haulers, farming vehicles, and persons transporting personal property are exempt from Commission regulation.
Many of the State's motor carriers belong to either the Western Motor Tariff Bureau, Inc. (WMTB) or the Hawaii State Certified Common Carriers Association (HSCCCA). WMTB and HSCCCA are nonprofit organizations engaged in the research, development, and publication of motor carrier tariffs. The two organizations represent their members in proceedings before the Commission.

Rate Increases for Motor Carriers

During the fiscal period, general rate increases were allowed to take effect for property carriers represented by WMTB, as follows:

For carriers operating on the island of Hawaii, the Commission granted an increase of 12.0 per cent in dump truck rates, effective February 9, 1998.

For household goods carriers, the Commission granted an increase of 6.0 per cent in statewide household goods rates, effective January 15, 1998.

During the fiscal period, passenger carrier proceedings included the following:

In September 1997, WMTB filed an application to increase statewide passenger carrier rates by 9 per cent. The application was subsequently withdrawn on March 28, 1998.

Water Carriers

The Commission regulates two water carriers: Young Brothers, a wholly owned subsidiary of HEI and a provider of interisland cargo service; and Hone Heke Corporation (Hone Heke), a passenger and cargo carrier.

Water carrier proceedings include the following:

Young Brothers Granted Final Rate Increase In October 1997, the Commission authorized Young Brothers to increase its rates and charges by 4.73 per cent.

Young Brothers Granted Final Approval to Revise Its Sailing Schedule Effective January 1, 1998, Young Brothers' application requesting authorization to revise its sailing schedule to the Port of Kawaihae was approved.

Young Brothers Seeks General Rate Increase In January 1998, Young Brothers filed its notice of intent to file an application for a general rate increase.

II.

ENFORCEMENT ACTIVITIES

The Commission enforces its rules and regulations, standards, and tariffs by monitoring the operating practices and financial transactions of the regulated utilities and transportation carriers. Two of the more significant enforcement activities involve customer complaint resolution and compliance with financial reporting requirements.

COMPLAINT RESOLUTION

The Commission accepts verbal and written complaints. Verbal complaints are received by telephone, or in person at the Commission's office. Written complaints must specify the facts involved, and cite the law, tariff, or rule under alleged violation. There are two kinds of written complaints -- formal and informal, and the requirements of each are stated in the Commission's rules of practice and procedure, HAR, chapter 6-61.

Informal and Verbal Complaints

As shown in the table below, the Commission received a total of 1,368 informal and verbal complaints in calendar year 1997 against regulated and unregulated utilities and transportation companies. This is a 13 per cent increase over 1996 complaints. Complaints on Oahu amounted to 889 out of 1,368, or 65 per cent of the total complaints.

The majority of complaints (883) involved telecommunications providers. GTE Hawaiian Tel received 504 complaints, mostly relating to service (availability, interruptions, and practices and procedures) problems, tariffs, and billing practices. The cellular and paging companies received 49 complaints, mainly over service problems and billing practices. Most of the 330 complaints filed against other telecommunications providers, including interstate and unregulated communications equipment and service companies, related to the business practices of long-distance carriers.

The electric utilities received 169 complaints, relating mainly to service (interruptions, and damages and claims processing) problems, tariffs, and billing practices. The complaints against the gas utility (56), and water and sewer facilities (23), were primarily over tariffs and billing practices. Most of the 6 complaints against water carriers involved insurance damages and claims, service availability, and scheduling and delays. Of the 231 complaints filed against motor carriers, the majority involved passenger and property carriers operating without CPCNs.

Informal and Verbal Complaints
Filed in Calendar Year 1997

	Oahu	Hawaii	Maui	Kauai	1997 Total	1996 Total
Telecommunications:						
GTE Hawaiian Tel	325	137	28	14	504	560
Cellular and Paging	33	1	7	8	49	14
Other Providers	251	25	47	7	330	152
Total Telecom	609	163	82	29	883	726
Electricity	99	39	11	20	169	154
Gas	32	16	6	2	56	35
Water/Sewer	8	10	1	4	23	13
Water Carrier	0	2	2	2	6	15
Motor Carrier	141	27	47	16	231	270
Total Other	280	94	67	44	485	487

Total Complaints	889	257	149	73	1,368	1,213

FINANCIAL REPORTING

The Commission's general orders require the submittal of financial reports and payment of revenue fees by all regulated utilities and transportation carriers.

During the fiscal year, the Commission issued 68 show cause orders to motor carriers, 5 orders to telecommunications providers, and 1 order to a water/sewer utility who failed to submit financial reports and pay required revenue fees. Interest and penalties collected for the late payment of revenue fees totaled $79,159. The CPCNs of 44 motor carriers and certificates of authority of 2 telecommunications providers were revoked for lack of compliance with financial reporting requirements.

MOTOR CARRIER CITATIONS

The Commission receives assistance from the State Department of Transportation, through the assignment of a motor vehicle safety officer, to issue civil citations for violations of the Motor Carrier Law, Chapter 271, HRS. The citations impose a civil penalty, typically $500 or $1,000 per violation. Civil penalties collected through motor carrier citations totaled $32,550 this fiscal year.

III.

POLICY-MAKING ACTIVITIES

Policy-making activities of the Commission include the adoption of administrative rules, standards, and procedures that govern the oversight of the regulated utilities and transportation carriers.

During the fiscal year, the Commission: (1) revised chapters 6-74 and 6-76.1, Hawaii Administrative Rules (HAR); and (2) adopted chapters 6-79 and 6-82, HAR.

> Chapter 6-74, governing standards for small power production and cogeneration, was revised in accordance with House Concurrent Resolution No. 32, House Draft 2 (1994), which requested revisions to § 6-74-15, by allowing a qualifying facility to petition the commission for appropriate relief. Chapter 6-74, as amended, took effect on April 17, 1998.
>
> Chapter 6-76.1, governing standards for shared tenant service (STS), revised the former chapter 6-76 by removing competitive barriers to the provisioning of this service by STS providers. Chapter 6-76.1 took effect on September 22, 1997.
>
> Chapters 6-79 and 6-82 set forth procedures and standards for aggregator and operator services, and for pay telephone service, respectively. Both chapters took effect on September 22, 1997.

Chapters 6-76.1, 6-79, and 6-82 represent the commission's ongoing commitment to implementing the telecommunications competitive mandates of Act 225, 1995 Session Laws of Hawaii, and the 1996 Federal Telecommunications Act.

IV.

LEGISLATION

The 1998 Hawaii State Legislature enacted the following key measures relating to the Public Utilities Commission:

Issuance of Voting Stock By deleting the language "for the production, conveyance, transmission, delivery, or furnishing of light, power, heat, cold, water, gas, or oil for the public use, either directly or indirectly..." in Section 269-17.5 HRS, Act 73 simplifies the statute and makes it clear that the 25 per cent restriction on the amount of stock that a foreign corporation may hold in a corporation will apply to " public utilities" as defined in Section 269-1, HRS.

Temporary Motor Carrier Authority Act 77 amends Section 271-16, HRS, by specifying that every application for temporary motor carrier authority: (1) be made in writing and verified under oath; (2) be accompanied by proof of service upon every current motor carrier in the classification for which temporary authority is applied; and (3) contain other information that the Commission may require.

Act 217 also amends Section 271-16, HRS, to require that the Commission determine at a public hearing held not later than 120 days after issuance of the temporary authority, whether the temporary operating authority granted shall continue in force beyond its expiration date.

Unlawful Motor Carrier Operations Act 91 amends Section 271-27, HRS, by extending the civil and criminal provisions of the motor carrier law to shippers and consignees who engage the services of persons violating the motor carrier law, rule, requirement, order, or any term or condition of any certificate or permit.

Public Service Company Tax Law Act 125 amends Section 239-2, HRS, by specifying that the definition of a "carrier" does not include a tour packager who provides transportation by contracting with others.

The Act delineates that where the transportation of passengers or property is furnished through arrangements between motor carriers, and the gross income is divided between the motor carriers, the public service company tax imposed by this chapter shall apply to each motor carrier in proportion of the gross income distribution.

The Act also provides that accounts found to be worthless and actually charged off for income tax purposes, may be deducted from gross income so far as they reflect taxable sales, but shall be added to gross income when and if subsequently collected.

Finally, the Act explains that a motor carrier, for purposes of Section 239-2, HRS, is a common or contract carrier transporting persons or property for compensation on the public highways.

Regulation of Utility Rates; Ratemaking Procedures Act 195 amends Section 269-16, HRS. Prior to the enactment of Act 195, the statutory provisions limited the appeal of the Commission's orders to rates and ratemaking procedures and were placed in Section 269-16, HRS. Act 195 removed these provisions from Section 269-16, HRS, and placed them in a new section, Appeals, of Chapter 269, HRS. Any party to a contested case proceeding may now appeal any of the Commission's orders to the Hawaii State Supreme Court.

High-Voltage Electric Transmission Lines Act 218 amends Section 269-27.6, HRS. The Act provides that whenever a public utility applies for approval to place, construct, erect, or otherwise build a new 46 kilovolt or greater high-voltage electric transmission system, either above or below the surface of the ground, the Commission shall consider: (1) whether a benefit exists that outweighs the costs of placing the electric transmission system underground; (2) whether there is a governmental public policy requiring the electric transmission system to be placed, constructed, erected or built underground; (3) whether any governmental agency or other parties are willing to pay for the additional costs of undergrounding; and (4) the recommendation of the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs.

Changes in Subscriber Carrier Selections; Prior Authorization Required; Penalties for Unauthorized Changes Act 225 adds a new section to Chapter 269, HRS, by prohibiting a telecommunications carrier from initiating a change in a subscriber's selection or designation of a long-distance carrier without first receiving: (1) a letter of agency or letter of authorization; (2) an electronic authorization by use of a toll-free number; (3) an oral authorization verified by an independent third party; or (4) any other prescribed authorization.

The Act also authorizes the Commission, upon determining that a carrier has engaged in the foregoing prohibited conduct, to order the carrier to take corrective action, impose penalties pursuant to Section 269-28, HRS, and to suspend, restrict or revoke the registration, charter, or certificate of the carrier, if doing so would be consistent with the public interest.

Special Purpose Revenue Bonds Act 262 authorizes B&F with the approval of the governor, to issue special purpose revenue bonds in the amount of $75,000,000 for HECO and $25,000,000 for HELCO.

V.

DOCKET STATISTICS

During the 1997-98 fiscal year, the Commission opened a total of 403 dockets. Of the 403 dockets, 282 or approximately 70 per cent were completed at June 30, 1998.

At the end of the fiscal period, 249 dockets were pending, including 128 dockets filed prior to the 1997-98 fiscal year.

Dockets Filed and Completed During FY 1997-98
and Dockets Pending at June 30, 1998

	Dockets Filed in Fiscal Year 97-98			Pending Dockets Filed Prior to FY 97-98	Total Dockets Pending at FY End
	Opened	**Completed**	**Pending**		
Utilities					
Electric	28	12	16	34	50
Gas	0	0	0	1	1
Telecommunications	127	97	30	34	64
Private Water/Sewage Companies	5	4	1	4	5
Subtotal	160	113	47	73	120
Transportation					
Motor Carriers	242	169	73	55	128
Water Carriers	1	0	1	0	1
Subtotal	243	169	74	55	129
Total	403	282	121	128	249

GLOSSARY OF TERMS

Central Office - a telephone company facility where subscriber lines are joined to switching equipment for interconnecting other customer lines and trunks, locally and long distance.

Certificate of Public Convenience and Necessity (CPCN), a certificate or permit issued by the Public Utilities Commission authorizing the operation of a utility or transportation carrier.

Cogeneration - the combined production of electric power and useful thermal energy, such as heat or steam.

Demand-Side Management (DSM), refers to reducing a consumer's demand for and use of energy through various programs, including conservation, load management, and efficiency resource programs.

Externalities - indirect costs and benefits, including (in IRP) the cost and beneficial impacts on the environment, people's lifestyle and culture, and the State's economy.

Federal Communications Commission (FCC) - the federal agency primarily responsible for regulating interstate communications.

Fiber Optic - the technology consisting of thin filaments of glass through which light beams are used to transmit data from one point to another.

General Rate Increase - an increase in the general level of rates or charges for all classes of customers.

Integrated Resource Planning (IRP) - a process by which utilities and regulatory commissions assess the cost of, and choose among, various resource options.

Interconnection - the interface of the network of one telecommunications carrier with that of another telecommunications carrier.

Interstate - between and among other states, U.S. territories, and the District of Columbia.

Intrastate - within the state; interisland.

Number Portability - the ability of a telephone service customer to retain, at the same location, an existing telephone number when changing service provider.

Small Power Production Facility - under the Public Utility Regulatory Policies Act, an electricity producer whose primary energy source is biomass, waste, renewable (wind, solar energy and water), or geothermal energy, or any combination thereof equal to more than 75% of the total energy input, with production capacity no greater than 80 megawatts.

Tariff - the entire body of approved rules and regulations, rates, charges and definitions of a regulated utility.

Universal service - the offering and providing of basic services to all customers at affordable, just, and reasonable rates.

Note: Definitions provided are limited to general usage in this report and are not necessarily legal definitions used in statutes, rules or regulations governing the Commission's activities.